

FRANKLINTON ASSOCIATION FOR CHALLENGED CITIZENS, INC.

Annual Financial Statements

As of and for the Year Ended June 30, 2012
(with 2011 summarized comparative information)

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date NOV 28 2012



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BRANDY WESTCOTT, LLC
CERTIFIED PUBLIC ACCOUNTANT
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Franklinton Association for Challenged Citizens, Inc
Franklinton, Louisiana

I have audited the accompanying statement of financial position of Franklinton Association for Challenged Citizens, Inc (a nonprofit organization) (the "Association"), as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. My responsibility is to express an opinion on these financial statements based on my audit. The prior year summarized comparative information has been derived from the Association's 2011 financial statements and, in my report dated December 7, 2011, I expressed an unqualified opinion on those financial statements.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Association as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated November 8, 2012, on my consideration of the Association's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Sincerely,
BRANDY WESTCOTT, LLC

A handwritten signature in black ink that reads 'B. Garcia, CPA'. The signature is written in a cursive, flowing style.

Brandy Westcott Garcia, CPA
Member

November 8, 2012

Franklinton Association for Challenged Citizens, Inc.
Statements of Financial Position
As of June 30, 2012 (with 2011 Comparative Totals)

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 818,691	\$ 787,670
Investments	99,200	99,200
Receivables, Net		
Accounts	21,221	25,659
Prepaid Assets	-	24,301
Total Current Assets	<u>939,112</u>	<u>936,830</u>
Property, Plant, and Equipment		
Land	10,000	10,000
Property, Plant and Equipment, Net	293,154	277,396
Total Property, Plant, and Equipment	<u>303,154</u>	<u>287,396</u>
Total Assets	<u><u>1,242,266</u></u>	<u><u>1,224,226</u></u>
Liabilities		
Current Liabilities (Payable From Current Assets)		
Accounts Payable	23,511	18,590
Long Term Debt - Current Portion	4,918	4,598
Total Current Liabilities (Payable From Current Assets)	<u>28,429</u>	<u>23,188</u>
Long Term Liabilities		
Long Term Debt	29,435	34,353
Total Long Term Liabilities	<u>29,435</u>	<u>34,353</u>
Total Liabilities	<u>57,864</u>	<u>57,541</u>
Net Assets		
Unrestricted	1,184,402	1,166,685
Temporarily Restricted	-	-
Permanently Restricted	-	-
Total Net Assets	<u>1,184,402</u>	<u>1,166,685</u>
Total Liabilities and Net Assets	<u><u>\$ 1,242,266</u></u>	<u><u>\$ 1,224,226</u></u>

The accompanying notes are an integral part of this statement

Franklinton Association for Challenged Citizens, Inc.
Statements of Activities
For the year ended June 30, 2012 (with 2011 Comparative Totals)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2012</u>	<u>2011</u>
Operating Revenues					
Public Support					
Medicaid					
Independent Living	\$ 1,805,264	\$ -	\$ -	\$ 1,805,264	\$ 1,826,155
Vocational Services	335,554	-	-	335,554	316,921
Provider Contracts	145,775	-	-	145,775	151,725
Contributions	3,607	-	-	3,607	11,117
Service and Fee Revenue	65,976	-	-	65,976	62,762
Investment Income	2,004	-	-	2,004	2,250
Other Revenues	2,557	-	-	2,557	500
Net Assets released from restrictions	-	-	-	-	-
Total Operating Revenues	<u>2,360,737</u>	<u>-</u>	<u>-</u>	<u>2,360,737</u>	<u>2,371,430</u>
Operating Expenses					
Program Services	2,184,300	-	-	2,184,300	2,105,586
Management and General	164,090	-	-	164,090	158,552
Total Operating Expenses	<u>2,348,390</u>	<u>-</u>	<u>-</u>	<u>2,348,390</u>	<u>2,264,138</u>
Change in Net Assets from Operations	<u>12,347</u>	<u>-</u>	<u>-</u>	<u>12,347</u>	<u>107,292</u>
Nonoperating Revenues and Expenses					
Insurance Proceeds	5,370	-	-	5,370	-
Gain on Disposal of Property and Equipment	-	-	-	-	13,770
Change in Net Assets	<u>17,717</u>	<u>-</u>	<u>-</u>	<u>17,717</u>	<u>121,062</u>
Total Net Assets, Beginning	<u>1,166,685</u>	<u>-</u>	<u>-</u>	<u>1,166,685</u>	<u>1,045,623</u>
Total Net Assets, Ending	<u>\$ 1,184,402</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,184,402</u>	<u>\$ 1,166,685</u>

The accompanying notes are an integral part of this statement

Franklinton Association for Challenged Citizens, Inc.
Statements of Functional Expenses
For the year ended June 30, 2012 (with 2011 Comparative Totals)

	2012					2011
	Center	Supported Independent Living	Total Program Services	Management and General	Total	
Expenses						
Salaries and Wages	\$ 325,176	\$ 1,316,742	\$ 1,641,918	\$ 142,775	\$ 1,784,693	\$ 1,717,615
Payroll Taxes	48,244	91,960	140,204	12,192	152,396	146,154
Client Payroll	35,902	-	35,902	-	35,902	31,644
Cost of Self Generated						
Revenue	6,946	-	6,946	-	6,946	8,331
Depreciation	22,056	14,704	36,760	-	36,760	44,673
Insurance	32,705	41,519	74,224	6,454	80,678	82,979
Interest	-	2,471	2,471	-	2,471	2,910
Professional Fees	9,600	23,450	33,050	-	33,050	27,650
Rent	14,366	20,502	34,868	-	34,868	34,282
Repairs and Maintenance	11,947	1,684	13,631	-	13,631	13,297
Supplies	22,571	10,044	32,615	-	32,615	32,395
Telephone	6,374	4,083	10,457	909	11,366	10,730
Training	3,150	1,304	4,454	-	4,454	4,433
Transportation	51,497	23,263	74,760	-	74,760	69,312
Utilities	15,204	5,030	20,234	1,760	21,994	24,419
Other	8,957	12,849	21,806	-	21,806	13,314
Total Expenses	\$ 614,695	\$ 1,569,605	\$ 2,184,300	\$ 164,090	\$ 2,348,390	\$ 2,264,138

The accompanying notes are an integral part of this statement

Franklinton Association for Challenged Citizens, Inc.
Statements of Cash Flows
For the year ended June 30, 2012 (with 2011 Comparative Totals)

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities		
Change in Net Assets	\$ 17,717	\$ 121,062
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	36,760	44,673
(Gain) Loss on sale of property	-	(13,770)
Changes in operating assets and liabilities		
(Increase) decrease in receivables	4,438	(3,864)
(Increase) decrease in other assets	24,301	(23,897)
Increase (decrease) in accounts payable	4,921	2,987
Net Cash Provided by Operating Activities	<u>88,137</u>	<u>127,191</u>
Cash Flows From Investing Activities		
Purchases of property	(52,518)	(49,887)
Proceeds from disposal of property	-	15,172
Net Cash (Used) by Investing Activities	<u>(52,518)</u>	<u>(34,715)</u>
Cash Flows From Financing Activities		
Repayment of debt	(4,598)	(4,882)
Net Cash (Used) by Financing Activities	<u>(4,598)</u>	<u>(4,882)</u>
Net Cash Increase (Decrease) in Cash and Cash Equivalents	31,021	87,594
Cash and Cash Equivalents, Beginning of Year	<u>787,670</u>	<u>700,076</u>
Cash and Cash Equivalents, End of Year	<u>\$ 818,691</u>	<u>\$ 787,670</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	\$ 2,471	\$ 2,910

The accompanying notes are an integral part of this statement

Franklinton Association for Challenged Citizens, Inc.
Notes to the Financial Statements
For the Year Ended June 30, 2012
(with 2011 summarized comparative information)

Introduction

The Franklinton Association for Challenged Citizens, Inc (the Association) was established in 1968 to assist individuals with disabilities in the Town of Franklinton, Louisiana, and the surrounding communities to increase personal independence and to facilitate an individual's integration into the community. The Association currently services approximately 90 clients and utilizes a staff of approximately 57 full and 34 part time employees. The Association provides two major programs the work programs at the Washington Parish Activity Center and the Supported Independent Living Program.

At the Activity Center, clients are provided daily transportation to and from the center as needed to participate in vocational and daily living skill education in a structured supportive environment. The Supported Independent Living Program provides in-home support for individual clients, designed to improve or maintain the individual's ability to take care of his or her own health and physical needs through direct training. In some cases clients require twenty-four hour care.

1. Summary of Significant Accounting Policies

A. Restrictions on Net Assets

Revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Association and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to any donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions on their use that may be met either by actions of the Association or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed or other legal restrictions requiring that the principal be maintained permanently by the Association. Generally, the donors permit the Association to use all or part of the income earned for either general or donor-specified purposes.

B. Comparative Information and Reclassifications

The financial statements are presented with certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Franklinton Association for Challenged Citizens, Inc.
Notes to the Financial Statements
For the Year Ended June 30, 2012
(with 2011 summarized comparative information)

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements. Estimates and assumptions may also affect disclosure of contingent assets and liabilities at the date of the financial statement, and the reported amounts of revenues and expenses. Actual results could differ from management's estimates.

D. Cash and Cash Equivalents

The Organization's cash and cash equivalents are considered to be cash on hand, demand deposits, time deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

E. Investments

Investments are reported at fair value. Investment income classified as operating revenue consists of interest and dividend income on investments and gains approved for use in operations. All other realized and unrealized gains or losses are classified as nonoperating activity and are available to support operations in future years and to offset potential market declines. Investments classified as current are available for operations in the next fiscal year.

Various methods and assumptions were used to estimate the fair value of each class of financial instruments. Cash and cash equivalents are valued at their carrying amount due to their short maturities. Investments are reported at fair value based on quoted market prices. Debt is valued at rates currently available to the Association for issuances with similar terms and remaining maturities.

F. Inventories and Prepaid Items

All inventories, when held, are valued at cost using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

G. Property and Equipment

Purchases of land, buildings, and other property having a unit cost per established guidelines and a useful life of three or more years are capitalized at cost. Donated assets are capitalized at the estimated fair value at date of receipt. Interest expense incurred during a period of construction, less related interest income earned on proceeds of tax-exempt borrowings, is capitalized. Property under capital leases is amortized over the lease term. Any gain or loss on sale of land, buildings and other property is reported as other revenues on the statement of activities. The Association maintains a threshold level of \$500 or more for capitalization of property and equipment.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

All capitalized assets, other than land, are depreciated using the straight-line method over their estimated useful lives ranging from three to ten years.

Franklinton Association for Challenged Citizens, Inc.
Notes to the Financial Statements
For the Year Ended June 30, 2012
(with 2011 summarized comparative information)

H. Revenue Recognition

Contributions, which include unconditional promises to give (pledges) are recognized as revenues in the period received or promised. Conditional contributions are recorded when the conditions have been met. Contributions are considered to be unrestricted unless specifically restricted by the donor.

The Association reports contributions in the temporarily or permanently restricted net asset class if they are received with donor stipulations as to their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released and reclassified to unrestricted net assets in the consolidated statement of activities. Donor-restricted contributions are initially reported in the temporarily restricted net asset class, even if it is anticipated such restrictions will be met in the current reporting period.

Product or service revenue is generally recognized upon delivery of the product or services to the customer.

Gains and losses on investments and other assets and liabilities are reported as increases and decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

I. Contributed Services and Materials

Contributed services are reported at fair value in the financial statements for voluntary donations of services when those services (1) create or enhance non-financial assets or (2) require specialized skills provided by individuals possessing those skills and are services which would be typically purchased if not provided by donation. There are several volunteers who donate time in the organization's programs and supporting services, however, due to the lack of an objective basis to measure the value of these non-specialized services, no contributed service revenue has been recorded in these instances.

Donated materials are recorded at their fair value at the date of the gift. The Association does not imply time restrictions for gifts of long-lived assets. As a result, in the absence of donor-imposed restrictions, gifts of long-lived assets are reported as unrestricted revenue.

J. Income Taxes

The Franklinton Association for Challenged Citizens, Inc. is a not-for-profit Association. The Association is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The three previous year's tax returns remain subject to examination by the Internal Revenue Service.

Franklinton Association for Challenged Citizens, Inc.
Notes to the Financial Statements
For the Year Ended June 30, 2012
(with 2011 summarized comparative information)

2. Cash and Cash Equivalents

Cash and cash equivalents were as follows at June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Interest Bearing Demand Deposits	\$ 818,691	\$ 787,670
Total cash and cash equivalents	<u>\$ 818,691</u>	<u>\$ 787,670</u>

Franklinton Association for Challenged Citizens, Inc has deposits (bank balances) held in five banks totaling \$1,052,095 at June 30, 2012 (\$952,895 in cash and cash equivalents and \$99,200 in certificates of deposit held in investments) Federal Deposit Insurance covers \$250,000 of deposits at each institution. At various times during the year, the deposits with financial institutions exceeded \$250,000. At June 30, 2012, the amount on deposit with financial institutions exceeding \$250,000 was \$438,491. However, effective December 31, 2010 through December 31, 2012, unlimited deposit insurance coverage is provided for all noninterest-bearing transaction accounts. The Association's deposits exceeding \$250,000 were deposited in noninterest-bearing transaction accounts at June 30, 2012.

3. Revenue and Receivables

The primary revenues for the Association come from the following sources in the following approximate percentages: Medicaid revenue in the form of supportive services for the independent living program \$1,805,264 (77%), and for the vocational services program \$335,554 (14%), provider contracts \$145,775 (6%), and self-generated \$65,976 (3%). Supportive service revenue is earned through three forms of Medicaid billings: the new opportunities waiver (NOW), the supports waiver, and the elderly disabled adult waiver. The new opportunities waiver is billed based on fifteen minute units of service and can apply to both the activity center and the supported independent living programs. The supports waiver is billed in day units and can only be applied to the work programs at the activity center. The supports waiver provides fewer services than the other waiver forms and is utilized as a bridge to partially meet the needs of clients due to the lengthy waiting list for the other waiver forms on a state-wide basis.

The provider contract revenue comes from one primary source, Res Care, which is a private health services provider to Medicaid qualified clients. Res Care transports their clients to utilize the services at the activity center for a per diem rate, and Res Care is directly billed based on attendance. The primary amount included in accounts receivable at year end is from Res Care in the amount of \$21,140.

The Association maintains several sources of self-generated revenue through multiple work programs conducted by the clients, where revenue earned is put back into the program to fund ongoing supplies and equipment required to continue the program. These work programs include lawn care, cutlery packing, newspaper recycling, and janitorial services. The Franklinton Association for Challenged Citizens also operates a gift shop selling some products produced by the clients and other purchased directly for resale. The Association utilizes these forms of self-generated revenue to carry out the mission of the Association while becoming less dependent on external supportive sources.

Franklinton Association for Challenged Citizens, Inc.
Notes to the Financial Statements
For the Year Ended June 30, 2012
(with 2011 summarized comparative information)

4. Property and Equipment

The cost and accumulated depreciation of land, buildings, and other property were as follows at June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Land	\$ 10,000	\$ 10,000
Buildings	296,287	254,158
Equipment - Work Account Assets	82,952	72,563
Furniture, Fixtures, and Equipment	33,304	33,304
Vehicles	156,103	156,103
Leasehold Improvements	<u>23,186</u>	<u>23,186</u>
Total cost of assets placed in service	601,832	549,314
Less accumulated depreciation	(298,678)	(261,918)
Property and equipment, net	<u>\$ 303,154</u>	<u>\$ 287,396</u>

Significant property and equipment activity in 2012 included building improvements of hardy board, a covered walkway and new steps at the supported independent living building for \$23,441 in May and an air conditioning unit at the activity center for \$6,500 in June. There were no property and equipment dispositions.

Significant property and equipment activity in 2011 included disposal of a van which was wrecked. The effects of this accident produced insurance and scrap metal proceeds of \$15,172 against the net depreciated value of the van for a gain on the disposition of \$13,770. A new van was purchased with the insurance proceeds and available cash for \$20,884. A 48KW emergency back-up natural gas generator was also acquired after bid for \$24,625 in the current year.

5. Investments

The fair value of investments were as follows at June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Certificates of Deposits with a maturity over three months	\$ 99,200	\$ 99,200
Total investments at fair value	<u>\$ 99,200</u>	<u>\$ 99,200</u>

Franklinton Association for Challenged Citizens, Inc.
Notes to the Financial Statements
For the Year Ended June 30, 2012
(with 2011 summarized comparative information)

6. Debt

On May 5, 2003, the Association purchased a tract of land and the building located on the land at 2005 Main Street, Franklinton, Louisiana for \$67,000 and financed it for fifteen years through Citizens Bank. The Association placed the building and land up for collateral on the loan for the same piece of land. In addition, the Association granted a continuing security interest to the lender in a Certificate of Deposit, currently carried at \$25,000, of which only \$10,000 was pledged to the loan.

The following is a summary of debt transactions for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Beginning Balance	\$ 38,951	\$ 43,833
Additions	-	-
Deletions	<u>4,598</u>	<u>4,882</u>
Ending Balance	<u>\$ 34,353</u>	<u>\$ 38,951</u>

Debt consists of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Note Payable \$ 67,000		
Dated 5/5/2003 due in monthly installments of principal and interest of \$ 592 through 5/5/2018 interest at 6.75%	\$ 34,353	\$ 38,951
Total long term debt	<u>34,353</u>	<u>38,951</u>
Less current portion	<u>(4,918)</u>	<u>(4,598)</u>
Debt, noncurrent portion	<u>\$ 29,435</u>	<u>\$ 34,353</u>

Scheduled maturities for long term obligations at June 30, 2012:

Year Ending June 30,	Note on Building Principal	Interest	Total
2013	\$ 4,918	\$ 2,191	\$ 7,109
2014	5,260	1,849	7,109
2015	5,627	1,482	7,109
2016	6,018	1,091	7,109
2017	6,437	672	7,109
2018 to 2019	6,093	263	6,356
Total	<u>\$ 34,353</u>	<u>\$ 7,548</u>	<u>\$ 41,901</u>

Interest incurred and charged to expense on the debt described above was \$2,471 and \$2,910 for the years ended June 30, 2012 and 2011, respectively.

Franklinton Association for Challenged Citizens, Inc.
Notes to the Financial Statements
For the Year Ended June 30, 2012
(with 2011 summarized comparative information)

7. Leases

The Association leases the location for its main activity center from the Town of Franklinton. The term of this lease is 99 years with lease payments of \$181.33 per month. Future lease payments under this lease are \$2,175.96 per year for the next five years. Rent expense under this lease was \$2,175.96 for the years ended June 30, 2012 and 2011.

The Association leases a building for its gift shop on a month to month basis with a monthly rental amount of \$800. Rent expenses under this lease was \$9,600 for the years ended June 30, 2012 and 2011.

The Association leases a warehouse on a month to month basis with a monthly rental amount of \$150 per month. Rent expense under this lease was \$1,800 for the years ended June 30, 2012 and 2011.

During the year ended June 30, 2011 the Association entered into an operating lease for a 14 passenger bus. The annual lease payments are \$12,000 for three years commencing in July 2010. Future lease payments remaining under this lease are \$12,000 for the year ending June 30, 2013. Lease expense under this lease was \$12,000 for the years ended June 30, 2012 and 2011.

The Association leases three printers. During the year ended June 30, 2011, three printers with combined minimum monthly lease payments of \$507.54 were traded in for three printers with a combined minimum monthly lease payments of \$585.09. The lease term on the prior lease ranged from 48 months to 60 months. The lease term on the new printers lease is 60 months. Future minimum lease payments under this lease are \$7,021.08 per year for the next three years and \$5,265.81 for the fourth year. Total lease expense under the printers' leases totaled \$9,323 for the year ended June 30, 2012 and \$8,608 for the year ended June 30, 2011.

8. Concentrations

The Association receives a substantial amount of its support for its programs of providing day services to challenged individuals, from governmental sources. These revenue streams require the Association to furnish habilitation services to clients to be reimbursed at an amount stipulated in each contract. A significant reduction in the level of this support, if it were to occur, may have an effect on programs and activities.

9. Commitments and Contingencies

At June 30, 2011, the Association was involved in litigation surrounding an automobile accident involving an employee of the Association driving a vehicle owned by the Association. The Association carried insurance coverage in an amount sufficient to cover the estimated damages, if awarded. At June 30, 2012, the Association was not involved in any other outstanding litigation or claims requiring adjustment or disclosure in the financial statements.

10. Subsequent Events

These financial statements considered subsequent events through November 8, 2012, the date the financial statements were available to be issued. No events were noted that require recording or disclosure in the financial statements for the fiscal year ending June 30, 2012.



BRANDY WESTCOTT, LLC
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of the
Franklinton Association for Challenged Citizens, Inc
Franklinton, Louisiana

I have audited the financial statements of Franklinton Association for Challenged Citizens, Inc (a nonprofit organization) (the "Association"), as of and for the year ended June 30, 2012, and have issued my report thereon dated November 8, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Association is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the Association's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described as 2012-1 and 2012-2 in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results

of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

The Association's responses to the findings identified in my audit are described in the accompanying schedule of findings and responses as Management's Response. I did not audit the Association's responses and, accordingly, I express no opinion on them.

This report is intended solely for the information and use of management, the Association's Board of Directors, others within the entity, federal awarding agencies, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Sincerely,

BRANDY WESTCOTT, LLC

A handwritten signature in black ink, reading "B. Garcia, CPA", is written over a horizontal line.

Brandy Westcott Garcia, CPA
Member

November 8, 2012

I have audited the financial statements of Franklinton Association for Challenged Citizens, Inc. (a nonprofit organization) (the "Association"), as of and for the year ended June 30, 2012, and have issued my report thereon dated November 8, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. My audit of the financial statements as of June 30, 2012, resulted in an unqualified opinion.

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Cause (1) During the current fiscal year, the Association began using check stock for its payroll account that contained only one signature line. The Association failed to effectively redesign its internal control system surrounding dual signatures and began issuing checks from the payroll cash account with only one signature from an authorized signer on the account. As the Association's accountant is an authorized signer on the payroll account, it then became possible for disbursements from that account to be authorized and recorded by an individual who maintains essential custody of the cash asset. (2) Electronic transfer forms authorizing the transfer of the Association's cash contain only one signature line. The Association failed to effectively design its internal control system surrounding dual signatures and transferred cash throughout the year with only one approved signature. As the Association's accountant is an authorized signer on the cash operating accounts and payroll accounts, it then became possible for cash transfers to be authorized and recorded and maintained by an individual who maintains essential custody of the cash asset.

Effect Without segregation of incompatible duties, the Association is exposed to many risks including, but not limited to, the risk of improper or unauthorized transactions, misappropriation of assets, and incomplete, inaccurate or fraudulent financial reporting. The lack of segregation of incompatible duties represents a material weakness in the design of the internal controls over financial reporting.

Recommendation The Association should immediately redesign its internal control system related to authorization of cash transactions such that no one individual is responsible for authorizing transactions, recording transactions and maintaining custody of related assets. Specifically, the Association should either (1) require, as part of its internal control system, dual signatures on all disbursements, withdrawals or transfers of cash, or (2) if one signature is to be used, the Association should remove their accountant as an authorized signer on all cash accounts and only include employees with positions of management and Board Members as signers on the accounts.

Management's Response While the Association has maintained certain entity level controls and compensating control activities as part of its internal controls system, the Association recognizes the need to design and implement effective internal control activities related authorization of cash transactions. The Association has immediately required dual signatures on all cash disbursements, withdrawals and transfers from all accounts on which our accountant is an authorized signer. On all cash accounts requiring only one signature, the Association has verified that their accountant is not an authorized signer on those accounts.

Finding 2012-2 Management Override of Controls (Material Weakness)

Criteria A properly designed and implemented internal control system provides, among other things, for the security of the Association's assets, including cash and the proper recording of transactions. The Association has maintained that part of its internal control system, includes controls over the disbursement of cash, including, but not limited to the following controls: checks are prenumbered, the sequence accounted for regularly, and unissued checks are controlled and kept in a secure location.

Condition Certain internal control activities implemented as part of the internal control system are not operating effectively. The following specific conditions exist: (1) The accounting system used by the association's accountant assigns and prints a check number on the prenumbered check stock. The number assigned by the system and printed on the check is the number recorded in the general ledger. As part of the system's automated controls, the system does not allow for duplicate check numbers to be assigned and issued. However, the accountant is running the Association's payroll from a computer outside separate from that which the general ledger is maintained and the payroll totals are entered into the general ledger through a journal entry. As such, payroll check numbers are not entered and tracked by the general ledger, only checks issued out of the payroll cash account from the General Ledger computer are appropriately tracked and controlled by the system and duplicate check numbers were erroneously issued from the payroll cash account within the general ledger, (2) Misprinted checks that are not issued or checks affected by a misprint and which are also not issued are not being properly voided or secured. Instead many, are being filed with other Association documents without being physically voided.

Cause Management override of implemented controls due to a lack of detailed understanding of specific items within the internal control system.

Effect Management override of controls leaves the Association exposed to many risks including, but not limited to, the risk of improper or unauthorized transactions, misappropriation of assets, and incomplete, inaccurate or fraudulent financial reporting. Management override of controls is considered a material weakness in the operation of the internal control system.

Recommendation The Association should adhere to the following recommendations: (1) The Association's accountant should gain a more detailed understanding of specific items within the internal control system. The Association should immediately cease the use of two computers to maintain its transaction and perform all accounting functions within one accounting system on one computer so that all automated controls are allowed to operate effectively, (2) Checks printed with a system assigned number, different than the prenumbered physical number, should be physically voided immediately, the prenumbered check with the number matching the number misprinted by the system should also be physically voided immediately, and both numbers (prenumbered number and the system assigned and printed number) should be immediately voided within the accounting system, and (3) Checks that are misprinted or are affected by a misprint of any sort and which are not issued, should be physically voided immediately and voided within the accounting system immediately.

Management's Response The Association intends to immediately implement the auditor's recommendations.

Section III Federal Award Findings and Questioned Costs

No Section III Findings

Franklinton Association for Challenged Citizens, Inc
Schedule of Prior Year Findings and Responses
For the Year Ended June 30, 2012

Section I Internal Control and Compliance Material to the Financial Statements

No Section I Findings

Section II Internal Control and Compliance Material to Federal Awards

No Section II Findings

Section III Management Letter

No Section III Findings

This schedule was prepared by management